



COMMONWEALTH of VIRGINIA

Office of the Governor

Richard D. Brown
Secretary of Finance

P.O. Box 1475
Richmond, Virginia 23218

September 12, 2008

MEMORANDUM

TO: The Honorable Timothy M. Kaine

THROUGH: The Honorable Wayne M. Turnage

FROM: Richard D. Brown

A handwritten signature of Richard D. Brown in black ink.

SUBJECT: August Revenue Data

August is not a significant month for revenue collections, with collections mainly from withholding payments, sales taxes, and other sources that have regular monthly payments.

Total general fund revenue collections fell 6.6 percent in August compared with August 2007 as the month contained two fewer deposit days following July's two additional deposit days. Payroll withholding receipts fell 3.8 percent for the month, mainly due to two less deposit days. Sales tax collections increased 2.2 percent in August as the economy continued to weather high energy prices and the housing market slump. On a year-to-date basis, total revenues declined 1.9 percent over the same period last year, below the annual forecast of 2.0 percent growth.

National Economic Indicators

Most recent indicators suggest the short-term outlook for the national economy remains weak, with the housing market and oil prices significantly dampening growth.

- Real GDP growth for the second quarter was revised up to an annualized rate of 3.3 percent from the 1.9 percent rate previously reported.
- The labor market contracted for the eighth consecutive month in August, with payroll employment falling by 84,000 jobs. Over 600,000 jobs have been lost since December, indicative of a national recession. In a separate report, the unemployment rate jumped by almost half a percentage point to 6.1 percent, the highest rate since September 2003.
- Following three consecutive weekly declines, initial claims for unemployment rose by 15,000 to 444,000 during the last week of August. The four-week moving average fell slightly from 441,000 to 438,000.

- Inflation decelerated in July. After increasing 1.1 percent in June, the Consumer Price Index (CPI) increased 0.8 percent for annual growth of 5.6 percent. Core inflation, excluding food and energy, rose 0.3 percent in July, bringing annual growth to 2.5 percent.
- Activity in the manufacturing sector remains weak. The Institute of Supply Management index fell from 50.0 to 49.9 in August. Although demand for U.S. exports has limited the severity of the downturn in manufacturing, global economies are also experiencing slowing growth.
- The Conference Board's index of leading indicators fell 0.7 percent to 101.2 in July, the second decline in the past three months. The weakness in the leading index suggests the economic slowdown will persist.
- The Conference Board's index of consumer confidence rebounded in August from 51.9 to 56.9. The fall in the current situation component was offset by a strong increase in the expectations component.

Virginia Economy

In Virginia, payroll employment grew 0.4 percent in July. Northern Virginia posted job growth of 0.9 percent in July. Jobs grew by 2.0 percent in Hampton Roads and 0.9 percent in Richmond-Petersburg. The unemployment rate rose from 4.2 percent to 4.4 percent in July.

The Virginia Leading Index grew 0.2 percent in June, following three straight months of declines. Rising auto registrations offset the negative contributions of building permits and initial unemployment claims. The leading index fell in eight of the eleven metro areas in June. The only MSAs with increasing indices were Blacksburg, Charlottesville, and Harrisonburg.

August Revenue Collections

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Net Individual Income Tax (67% of general fund revenues): For the first two months of the fiscal year, net individual income tax increased 3.2 percent from the same period last year, trailing the annual estimate of 6.5 percent. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (59% of general fund revenues): With two less deposit days, collections of payroll withholding taxes declined 3.8 percent in August. July had two additional business days so August monthly collections reflect a transition from the 15.0 percent growth last month. Year-to-date withholding growth is 5.1 percent, lagging the projected annual growth rate of 6.4 percent.

Individual Income Tax Nonwithholding (19% of general fund revenues): August is not a significant month for this source, since the first estimated payment in fiscal year 2009 is due in September. Year to date, collections through August were \$75.9 million compared with \$71.8 million in the same period last year, growing 5.7 percent compared with the annual estimate of 6.9 percent.

Individual Income Tax Refunds: Through August, \$94.1 million has been refunded compared with \$63.4 million during the same period last year. The growth is primarily attributable to “base” refunds, or those refunds related to overpayments made as the economy has slowed.

Sales Tax (20% of general fund revenues): Collections of sales and use taxes, reflecting July sales, grew 2.2 percent in August. On a year-to-date basis, collections have fallen 1.1 percent, far behind the annual estimate of 4.9 percent growth. High fuel prices and the effects of the housing downturn continue to restrain consumer spending.

Corporate Income Tax (4% of general fund revenues): August is not typically a significant month for corporate collections, since the first estimated payment for fiscal year 2009 is due in September. Through the first two months of the fiscal year, \$25.2 million has been collected in this source, compared with \$31.1 million in the same period last year.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Wills, suits, deeds, and contracts – mainly recordation tax collections – fell 37.3 percent in the month of August, and are down 34.1 percent year to date. Adjusted for the transfer of 3 cents of the 25 cents per \$100 recordation tax to the Commonwealth Transportation Fund, year-to-date collections are down 26.4 percent.

Other Revenue Sources

The following list provides data on August collections for other revenue sources:

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Insurance Premiums (2% GF revenues)*	-100.0%	-25.7%
Interest Income (1% GF revenues)	-26.6%	-35.5%
ABC Taxes (1% GF revenues)	-7.5%	3.6%

**Monthly collections of insurance premiums are being transferred to the Transportation Trust Fund*

per HB 3202 until the required amount of \$132.3 million has been booked.

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue fell 27.6 percent in August – \$29.2 million compared with \$40.4 million in August of last year. Most of the decline was due to a steep decline in the estate tax. The General Assembly repealed the tax effective July 1, 2007, and estates from deaths prior to that date had up to nine months to file. For the fiscal year-to-date, collections of All Other Revenue fell 24.6 percent from the same period in fiscal year 2008, ahead of the annual estimate of a 26.7 percent decline.

Lottery Revenues: Net income of \$37.6 million in August was 21.6 percent behind August of last year, mainly due to decreased sales in Mega Millions. Mega Millions sales were down 44.5 percent compared to last August when the jackpot rolled to \$330 million. Year-to-date, net income is down 12.2 percent, trailing the annual estimate of 1.3 percent growth.

Summary

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September collections will complete the first quarter of fiscal year 2009 and provide a clearer assessment of revenue growth. The first estimated payments from individuals, corporations, and insurance companies are due in September.

The fall revenue forecasting process has begun and is following an accelerated schedule this year. Two meetings with industry experts have been conducted to examine the outlook for housing, autos and consumer spending. The Governor's Advisory Board of Economists met on September 10 to assess the economic outlook for Virginia over the current biennium. The outlook recommended by the Board will drive the preliminary revenue forecast developed by the Department of Taxation. The Governor's Advisory Council on Revenue Estimates, comprised of business and legislative leaders, will meet on September 23 to consider this preliminary revenue forecast.